

3. Farm retirement in the Netherlands, 1950-2002¹

Gijs van Leeuwen, Ministry of Agriculture, Nature Management and Fisheries, The Netherlands, July 2002.

3.1 Introduction

This report aims at throwing light on the process of farm-retirement in the Netherlands during the period 1950-2002. It presents the number of holdings during this period and discusses the reasons for the decline of the number of farms. Next, the role that was played by the government in this process is discussed: the policy instruments the Dutch government used in this field are listed and the impact of the measures on the process is indicated.

3.2 Number of farms

In the 1950s the number of farms decreased considerably (see also Appendix 1). The Netherlands had been left impoverished by the Second World War. For years the Netherlands had practised a fairly liberal agricultural policy and the agricultural sector was oriented towards the world market. Other European countries protected their agriculture and applied import restrictions. There were few opportunities for Dutch farmers to export their products within Europe. During those years, many farmers emigrated overseas to Canada, Australia and New Zealand.

At the end of the 1950s the Netherlands joined the European Community (Treaty of Rome in 1957). This laid the basis for increased export to other European countries during the 1960s, as agricultural policy was gradually harmonised within the EEC. At this time industrialisation increased at a rapid pace, resulting in a labour shortage. This provided employment opportunities for farmers who wanted to finish their businesses.

During the 1960s, 1970s and 1980s agricultural production in the Netherlands increased very quickly and the process of business termination slowed down. Policy reforms took place in a number of agriculture sectors during the 1980s, which put an end to unrestrained production growth; in the dairy sector by the introduction of milk quotas (1984) and in the pig and poultry sector due to the introduction of restrictions on manure production (in 1987). In the 1990s production in these sectors declined and the need to cut back the number of holdings increased. Because of large manure surpluses government policy in more recent years has been aimed at reducing intensive livestock production. On average 3-5% of the agricultural holdings close each year since the mid-nineties (see Appendix 1).

In the coming years the number of farms will decline further. The manure surplus will force the pig and poultry sector to further reduce production and subsequently the number of holdings will fall. EU protection (market protection and income support) will decline in the arable and dairy sectors and will lead to loss of livelihood in these sectors.

¹ This contribution has been discussed at the meeting in The Hague, 26-27 September 2002.

Open field vegetable sectors are facing strong international competition because of the relatively high prices of land and labour in the Netherlands.

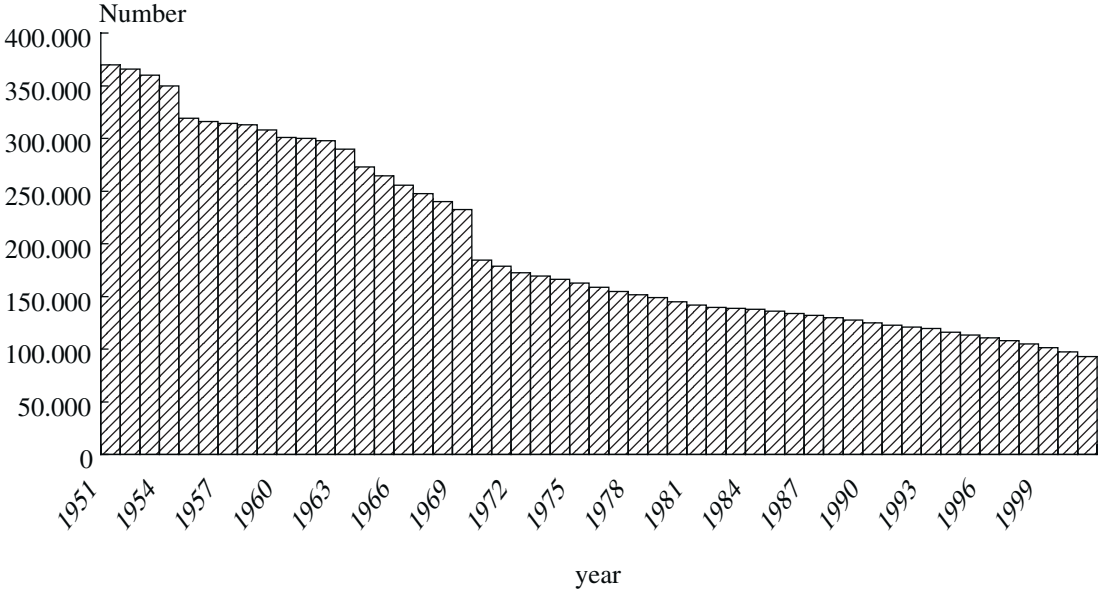


Figure 1 Number of agricultural holdings in the Netherlands, 1950-2002

It is also important to note that until recently the Dutch economy was functioning well, with labour shortages in several sectors. Technical progress offers further opportunities for growth of efficiency in agricultural production. Studies show that in case of complete liberalisation in 10 to 20 years 75% of production will be carried out on larger farms. In the dairy sector this will mean farms of 200 to 1000 cows, with remaining production taking place on smaller farms of 50 to 200 cows. Farms with less than 50 cows will then be seen as "hobby farms"!

We cannot predict how, or at what speed, EU policy will be reformed and agricultural sector protection will reduce. It is, however, certain that this policy will continue to influence the ability of farms to carry on.

3.3 Background of farm retirement

The decision to stop is one that is taken at micro level, by the individual farmer. The farmers are influenced by push factors and pull factors. An important push factor is that the business is generating too little income. Poor health of the farmer or the need to use the land for other purposes can also be push factors. An important pull factor is whether there is an attractive alternative, such as employment outside agriculture or other means of securing a livelihood.

There are many considerations that farmers take into account when making decisions to stop or continue. Some of these are cultural considerations: farmers often have strong ties to their farm, land or cattle. They enjoy working as farmers and like their way of liv-

ing. They live in communities (village, sector organisation, church) where farmers are treated with respect and where much value is placed on living in the country. Another consideration is that the holding (the land, building and cattle) is usually worth a substantial amount of money. Even if the income is low, this is no reason to cease immediately: part of the holding could be sold to generate funds. One reason for farmers not to stop is that their land and buildings retain their value as investments. Also, their farming expertise and knowledge would be undervalued elsewhere. All in all there are plenty of reasons not to stop. The decision to cease farming is hard to make.

The most common situation is that the farmer reaches retiring age and has no successor to take over the business. In the past decade more than 50 % of older farmers had no successor, at the moment this is 70%. Farmers usually stop working between the ages of 60 and 70.

Other farmers stop their farm at an earlier age for the following reasons:

- bankruptcy. This is a small number, about 100 each year;
- emigration. Immediately after the war each year about 500 to 600 farmers emigrated. In recent years this number is between 250 and 350. But there is a difference: in the fifties mostly poor farmers emigrated, nowadays it are the rich ones that see more future for farming in other countries than in the Netherlands;
- alternative employment outside farming. This can be a full-time or part-time job. Some farmers also introduce activities on the farm that are not directly related to farming, such as camping sites and farm shops;
- illness or death;
- non-agricultural land use. The land is sold for housing or nature purposes: 5000 – 10.000 ha a year. Some of these farmers buy another farm;
- early retirement between 55 and 65: about 100 farmers take part to the early retirement scheme every year.

Retirement from farming is to a large extent an autonomous process with its roots in economic developments. The need to stop is often the result of the low income generated by farming. This is because the application of labour-saving techniques, which are relatively cheap, has substantially increased productivity per farmer. For instance, in the Dutch dairy industry of the 1950s one person could milk approximately 5 cows in one hour. At the moment, depending on the system used, 50 to 100 cows can be milked by one person in an hour and each cow gives twice the amount of milk. The application of these labour-saving techniques led to an increase in supply and consequent fall in prices. In this competitive process some of the businesses are left with low incomes. This applies especially to smaller farms that are less able to introduce labour-saving techniques. Table 1 shows that the income from farming on small farms is one quarter of that on large-scale farms.

Table 1	Farm results and incomes (x 1,000 euros per farm)			
	According to type of farm (three year average, 1997-1999)			
	Large-scale farms	Medium-sized farms	Other Farms	Total
Size (SFU)	263	76	50	97
Families per farm	1.7	1.1	1.06	1.13
Output per farm	595	165.5	99.6	213.4
Farm-income per family per farm	61.8	24.4	18.1	29.7

Note: SFU stands for Standard Farming Unit, a guideline to express size of business: 1 SFU is equivalent to 1 ha cereals, 0.75 dairy cow, 3.5 breeding sows or 350 laying hens.

3.4 Measures taken by the Dutch government to facilitate cessation of farms

The government plays a facilitating role in the process of farm retirement. By farm-retirement and subsequently selling the farm, production factors (labour and capital) may be used in a more profitable sector and this process then gives a contribution to economic growth and welfare. The instruments the government has been implementing have changed over the years. These are, on the one hand, measures specifically aimed at agriculture (under the responsibility of the Ministry of Agriculture), and, on the other hand, general measures (under the responsibility of the Ministry of Social Affairs). EU measures can also be important.

3.4.1 National measures, specially directed to help farmers cease farming

3.4.1.1 *Support for emigration*

Immediately after the Second World War the Dutch government facilitated farmer's emigration by giving support to organisations that guided and advised farmers who wanted to go abroad. The government also concluded agreements with countries willing to accept incoming farmers. This support was stopped in the beginning of the 1990s.

3.4.1.2 *Financial aid for retirement and selling the farm*

For decades the Dutch government pursued a policy aimed at restructuring the agricultural sector. One of the instruments with which this was to be achieved was an outgoing farmer's scheme, which encouraged farmers to sell their business and lands to make room for those who stayed in the business. To this end the Development and Reconstruction Fund for Agriculture was set up in 1963 with representatives of government and farmers' organisations in the Board. The Fund played a major role in agricultural restructuring policy. So-called 'Decisions of the Board' introduced measures to make cessation a financially attractive option. In the sixties and seventies, thousands of farmers benefited from these measures (See Appendix 2). But over time the effect of the measures dwindled and by the end of the eighties financial aid to outgoing farmers was stopped. From 1963 to 1990 the government

spent 0.5 billion Euro on these measures (see Appendix 3). In the end 83,000 ha of land had become available for farmers who wished to expand.

3.4.1.3 Buying up scheme for allocation rights in land consolidation projects.

In the fifties the government in the Netherlands introduced land consolidation schemes. Since the sixties outgoing farmers were given financial aid under these schemes when they sold their businesses and lands to government agencies to further the land consolidation process. Land consolidation projects were introduced to eliminate land fragmentation and improve the prevailing defective land tenure structure as a result of the distribution of lands among a farmer's children after his death. The schemes aimed to increase average size of ownership and average size of plots. The measures also included the construction of a proper farm road network and the improvement of water control. In the 1970s there was added emphasis on nature management, landscape and outdoor recreation.

3.4.1.4 Retraining schemes for outgoing farmers.

Outgoing farmers who want new qualifications to improve their chances on the job market may qualify for a retraining scheme. This option was quite popular in the 1960s and 70s but the measure still applies.

3.4.1.5 Buying-up scheme for manure production rights.

Since the mid-eighties the government has introduced many measures to prevent further expansion of manure production. In 1987 manure production rights were introduced. Livestock farmers were no longer allowed to produce above a given individual quota. This resulted in trade of manure quotas. In 2001 and 2002 farmers were given the option to sell their manure production rights to the government and cease pig and poultry farming. 5000 Livestock producers sold their manure quotas and half of them ceased business. The buying-up scheme has cost the government € 300 million.

3.4.1.6 Support to advisory services of farmers

The government has given financial support to the advisory services of farmers' organisations to help outgoing farmers deal with the dramatic consequences the decision of ceasing business may have. Now the support is no longer available but farmers can still get their businesses screened with government support to help them make the right decision.

3.4.2 General national measures that facilitate cessation of farming

3.4.2.1 Pension scheme

The Dutch government introduced in the fifties a general pension scheme, paid by taxpayers. Under the General Pensions Act all people of 65 and older are entitled to retirement payment which now stands at € 1163 for a couple. This is equal to 70% of the minimum

wage and is hardly adequate for a decent living. Employees are obliged to buy their additional pensions from occupational pension schemes but farmers and the self-employed need to buy during their working years their own pension at a private pension-insurance company or save money to provide for their old age.

3.4.2.2 *Early retirement scheme*

In the framework of its social policy the government has taken many measures since the fifties to help those who on account of age, unemployment or disability are without sufficient financial means. In 1987 these measures were complemented with a special scheme for the self-employed on low incomes, who want to retire early. Farmers also qualify for this scheme. Under this scheme those between 55 and 65 who are below the minimum income (about € 21.000 a year) and are unlikely to earn more, qualify for an allowance that brings their income up to the minimum wage level until they are 65. In the early days, around 1987, some 300 to 400 farmers a year applied for the scheme, around 2001 this number had dropped to 100.

3.4.2.3 *Tax relief*

There are also tax relief measures for those who want to cease business operations. On cessation of business there is tax exemption on a small part of the liquidation proceedings, the profit that is made by selling the agricultural land is completely exempted from tax. In addition self-employed persons (so, also farmers) can during their working years put part of their income aside without paying tax. This amount has to be saved for buying pension at the moment one stops working.

3.4.3 EU measures that facilitate cessation of farming

In 1972 the EU adopted a Council Directive in (72/160/EEC) concerning measures to encourage the cessation of farming (comparable with the measures the Dutch government took in the mid-sixties). Under this Directive Member States had to introduce measures that would be co-funded by the EU. The Netherlands implemented this Directive by amending a Decision of the Board (103). EU co-funding stopped in October 1985.

In 1992 the EU adopted a measures to encourage older farmers to take early retirement and reallocate their land. Only farmers between 55 and 65 could qualify for an annuity of 4,000 ECU to 10,000 ECU a year, half of which would be paid by the EU. This measure was never implemented in the Netherlands as the national early retirement scheme proved to be a better deal for farmers.

In the rural development regulation 1257/1999 the EU adopted measure to encourage early retirement and take land out of production or transfer it to the more profitable businesses. Again, only farmers between 55 and 65 could qualify. Again, the EU would contribute to the measure. This measure was not implemented in the Netherlands either.

In addition to measures directly aimed at cessation of business the EU also adopted measures that facilitated the process of terminating a business indirectly. These include the dairy quota arrangement, the set-aside arrangement and the acreage payments.

Dairy quota arrangement

In 1984 the EU introduced dairy quotas as a temporary solution to the overproduction in the dairy sector. But as the EU began to cut quotas dairy farmers found it increasingly difficult to go on and the Dutch government set up a scheme to allow farmers to sell their quotas. Over the 1984-1989 period the Dutch government bought milk quotas for a total of € 140 million. There were also farmers that sold their quota to other farmers. Farmers who try to expand milk production are willing to pay a price for the quota (milk quota are more or less on the free market in the Netherlands!). In this way many farmers stopped in a very easy way. The number of quota holders dropped from 54,000 in 1984 to 32,000 in 2002 and the sum that these sellers get is in the Netherlands about € 700 million each year. Above this about 9,000 owners of quota let milk quota, 5,000 of them stopped completely with milking (so called "sofa" farmers). The sum that these "sofa-farmers" yearly get by letting quota in the Netherlands is € 125 million. The imposition of milk quotas, introduced to limit government expenditures, proved to be a lucrative arrangement for stopping dairy farmers in the end and helped to cease business.

Set-aside arrangement

In 1988 an EC-wide move to curb cereal production was introduced. It offered compensation to farmers willing to take their land out of production. Set-aside land could either be left fallow or planted with trees. Some 100 farmers in the Netherlands made use of this scheme. In fact it helped them to cease farming.

Acreage payments

The EU regulations give income support for some products (e.g. cereals and beef). This support partly brings higher incomes and leads to higher prices for land because of the higher profitability for the buyers. The high prices for land facilitate those farmers that want to stop.

3.5 Concluding remarks/points of discussion

For the purposes of structural improvement in primary agriculture it is necessary that farmers cease business. This gives possibilities for other farmers to expand and practice economies of scale by a more efficient use of assets such as labour, land, machinery and buildings. The task of the Government is to create the right conditions to allow this to happen.

Encouraging business cessation is, however, an emotive issue as it may lead to the loss of jobs. It is important that there is alternative employment or income opportunity.

The Dutch approach of combining the encouragement of business cessation with the development of farms under the guidance of the Development and Reconstruction Fund for Agriculture has been a successful one. It has provided farmers with a reasonable income and it has released land for structural improvement. The co-responsibility of the representatives of the farmers' organisations in the Board of the Fund helped to give trust to farmers in the difficult process of making up ones mind.

A question is whether the measures to encourage farmers to cease business have been effective. It may be argued that many would have stopped farming anyway, measures or no measures. The measures, therefore, must be focussed strictly at farmers who really need it. An allowance for those who cannot earn their keep is generally accepted.

An argument against encouraging business cessation is that people fear that in many areas people will move elsewhere and local (social and economic) facilities will disappear. But this is an argument that does not apply to the Netherlands because it is a densely populated country and the population is distributed evenly across it. Moreover, economic forces move toward expansion of scale and the preservation of small-holdings is not a viable proposition.

Older farmers ceasing business in the Netherlands increasingly have sufficient means of their own and do not require government aid. On account of high land and quota prices business cessation is financially attractive for many farmers.

A large part of the cessation process happens quietly, particularly where farmers have no successor. It is important that young farmers take over only viable farms.

Appendix 1 Number of farms (1950-2001) in the Netherlands and farms ceasing business (absolute number and percentage of total number of farms)

Year	Number of farms	Farms ceasing business	
1951	370000	4000	1.1%
1952	366000	6129	1.7%
1953	359871	10060	2.8%
1954	349811	1)	1)
1955	319037	2839	0.9%
1956	316198	2187	0.7%
1957	314011	1083	0.3%
1958	312928	4874	1.6%
1959	308054	7054	2.3%
1960	301000	1000	0.3%
1961	300000	2000	0.7%
1962	298000	8000	2.7%
1963	290000	17000	5.9%
1964	273000	8661	3.2%
1965	264339	8844	3.3%
1966	255495	8060	3.2%
1967	247435	7478	3.0%
1968	239957	7536	3.1%
1969	232421	1)	1)
1970	184613	5992	3.2%
1971	178621	6105	3.4%
1972	172516	3384	2.0%
1973	169132	2935	1.7%
1974	166197	3603	2.2%
1975	162594	3979	2.4%
1976	158615	4011	2.5%
1977	154604	2897	1.9%

1978	151707	3033	2.0%
1979	148674	3680	2.5%
1980	144994	3344	2.3%
1981	141650	1996	1.4%
1982	139654	1115	0.8%
1983	138539	796	0.6%
1984	137743	1844	1.3%
1985	135899	2055	1.5%
1986	133844	1831	1.4%
1987	132013	2260	1.7%
1988	129753	2386	1.8%
1989	127367	2464	1.9%
1990	124903	2297	1.8%
1991	122606	1670	1.4%
1992	120936	1212	1.0%
1993	119724	3540	3.0%
1994	116184	2982	2.6%
1995	113202	2535	2.2%
1996	110667	2748	2.5%
1997	107919	3041	2.8%
1998	104878	3333	3.2%
1999	101545	4062	4.0%
2000	97483	4700	4.8%
2001	92783	92783	

in 1953 and 1969/1979 different threshold for registration

Appendix 2 Measures for cessation of farms under the Development and Reconstruction Fund for Agriculture

1. Decision of the Board no 2

Period covered: 1 May 1964 - 1 October 1967.

Target group: natural persons of 50 years of age or over whose main source of income is agriculture and whose net income is less than 8,000 guilders a year.

Condition: person must cease business.

Monthly allowance based on age

Payment made in monthly instalments up to applicant's death: Amount increases with age at cessation (a farmer ceasing business at 50 for instance gets 196 guilders a month, a farmer ceasing business at 64 gets 451 guilders a month. Those over 65 get 96 guilders a month (on top of OAP). On applicant's death the allowance is paid to his widow.

Number of applications: 11,130 of which 6,314 were approved.

2. Decision of the Board no 12

Period covered: 1 January 1966 - 1 February 1967.

Objective: releasing land for structural improvement.

Target group: natural persons in agriculture of any age and any income

Allowance: 10 times the annual rental value of the land per ha in five one-year terms
 Allowance based on number of ha.
 Number of applications: 735, of which 258 were approved.

3. Decision of the Board no 25

Period covered: 1 January 1968 - 15 November 1972.
 Target group: natural persons of 50 to 65 whose main source of income is in agriculture (size of holding must be at least 2000 points).
 Monthly allowance based on the rental value of the land released and the size of the business.
 Number of applications: 9,214 of which 4,890 were approved.

4. Decision of the Board no 103

Period covered: 15 November 1972 - June 1991.
 Target group: natural or legal persons in agriculture under 65 , whose annual income before tax is less than 26,000 guilders a year.
 Allowance:
 a. allowance per ha (arable land and grass 1000 guilders per ha, (more for horticultural land) plus when agriculture is main source of income:
 - for those under 50, a lump sum payment based on size of business
 - for those over 50: a monthly allowance up to age 65.
 Number of applications: 3,994 of which some 2,100 were approved.

Appendix 3 Participants in the measures for cessation of farms under the Development and Reconstruction Fund for Agriculture and government expenditure

Year	Farms ceasing business	Expenditure in million Euro
1965	2037	2.31
1966	2183	7.76
1967	1389	11.16
1968	906	13.70
1969	422	14.07
1970	467	14.38
1971	922	18.92
1972	1871	28.68
1973	1008	21.46
1974	401	18.60
1975	274	18.51
1976	345	20.74
1977	231	19.78
1978	138	19.56
1979	98	18.97

1980	107	18.42
1981	223	18.65
1982	170	18.79
1983	166	17.74
1984	85	16.11
1985	43	14.16
1986	22	13.25
1987	23	12.07
1988	24	11.21
1989	24	10.57
1990	15	9.71
1991	42	9.67
1992		8.89
1993		8.80
1994		8.08
1995		7.26
1996		6.44
1997		6.04
1998		4.90
1999		4.99
2000		4.31
2001		3.95
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Total	13636	482.64

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